


Handouts for SBA Express Loan Program

October 27th Online Seminar, present by Tony Wagner



SBAExpress Loan Program


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SBAExpress Eligible Lenders

- The Same as Regular 7(a)
 - Banks, Credit Unions, others
 - Regulated and reviewed by a federal or state agency
 - Can process, make, service, and liquidate SBA loans

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Existing SBA Lender Requirements

- Satisfactory Currency and Default Rate
 - 85% currency rate on its SBA portfolio for the last 3 years and the current period. 1 Year approval
 - 90% currency rate on its SBA portfolio for the last 3 years and the current period. 2 year Approval
 - SBA will consider lenders with less than 3 years experience.

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Existing SBA Lenders Requirements Cont.

- Can Process, Make, Service, and Liquidate SBA Loans
- In Compliance with SBA Statutes, Regulations and Policies
- Acceptable rating on latest SBA Review
- Current on Filing 1502 Reports
- Current on Remitting Guarantee and Serving Fees
- In Good Standing with Federal/State Oversight Authority
- No major objections from the District Office

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Requirements for Eligibility Authority

- Processed 25+ SBA Loans in Prior year
- Positive Recommendation Form SBA Lead Office
- Reviewed by SBA in the Prior 2 years
- Received a Acceptable Rating in that review

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Lenders New to SBA Requirements

- Significant business loan experience
 - 20 + commercial or business loans of \$50,000 or less in the portfolio
- In good standing with fed/state regulator
- Trained by SBA
- No major District Office objections

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Application Information to include

- **Lender Name and Address**
 - Contact person, Title, Address, Phone & Fax Number, and Email Address
- **Copy of SBA Forms 750 & 750B**
 - Sign by Bank and District Director
- **Lender Letter Stating**
 - In good standing with primary regulator and not subject to any enforcement action in the past two years.

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Where to Apply

- SBA Sacramento Loan Processing Center.
- 501 I Street
- Sacramento, CA 95814-232
- Fax: 916-930-2406
- Phone: 916-930-2455
- Email: Rick.Apodaca@sba.gov

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Email: Rick.Apodaca@sba.gov



Authority

- SBA Express Program Guide
 - Notice 5000-915
 - Notice 0000-1727
 - Notice 5000-931
 - Notice 5000-850
- CFR-Code of Federal Regulations
- SOP 50-10, 50-50, and 50-51
- SBA Form 1920SX (Part A-C)

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SBAExpress Program Guide

- Lender must apply all SBA business loan requirements, including those in the Small Business Act, 13 CFR Parts 120 and 121, and SBA SOPs 50-10, 50-50, and 50-51 unless specifically identified as inapplicable by the **Program Guide (page 8)**

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Lender Authority and Responsibility

- Lender to assume greater responsibility
 - Screening application
 - Completing credit analysis
 - Reviewing eligibility
- Lender assume to be familiar with SBA status, regulations, SOPs, and SBAExpress Program Guide
- Complex or ambiguous eligibility issues should be processed regular 7(a)

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Lender May Rely on

- Applicant's certification provided in Form 1919 Borrower Information Form
- Unless Lender has Contrary Creditable Evidence
- INS Form G-845, Required for
 - Non- citizens
 - 20%+ ownership

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Lender's Credit Analysis and Procedures

- Appropriate and Generally Accepted
- Consistent with your Non-SBA Commercial loans
- Credit Scoring is acceptable if used for your non-SBA Commercial loans
- Equity injection and Documentation
 - Same as for non-SBA Commercial loans
 - If Required for non-SBA Commercial loans Required for SBAExpress
- Prior Bankruptcy
 - Same as for non-SBA Commercial loans
- Documented and maintained for SBA Review

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Borrower Ethical Requirements

- Question 1, 2, and 3 of Form 1919, Borrower Information Form
 - Parole, Probation, or Incarcerated (ineligible)
- If:
 - One misdemeanor in prior 10 Years
 - Up to 3 misdemeanors all over 10 years
- Provide complete Form 912
- SBA will process and issue Gty #
 - SBA will notify lender if it clears/consistent
 - Consistent with FBI Files
 - SBA may cancel guaranty if not

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Conflict of Interest

- Real or appearance of a conflict
- Lender, its associate(s), employees, or SBA employees has a direct or indirect financial interest in the applicant
 - Within prior 6 Months
 - Anytime while the loan is outstanding
- SBAC, SBDC, SCORE, ACE, Members of Congress, or Appointed Federal legislative or judicial
- See SBA Form 1920SX (Part C)
- Consider Regular 7(a)

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Associates

- Of the Lender
 - Officer, Director, Key Employee, 20% or more owner, Controls
- Of the Small Business
 - Officer, Director, Key Employee, 20% or more owner, Controls

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Ineligible use of Proceeds

- Same as Regular 7(a)
 - See National 7(a) Lender's Guide
 - See SOP 50-10 Subpart A Chapter 2 Para. 11
 - See Federal Regulations section 120.130
- Exceptions:
 - See SBA Form 1920SX (Part C)

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Businesses not Eligible under SBAExpress

- Agricultural and Farms
- Commercial Fishing and Construction of new Vessels
- Extended Care Facilities/CBRFs
- Mines
- Applicant with Overseas Facilities
- Religion
- Sexual Nature
- Gambling
- Etc.

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Programs not Allowed under SBAExpress

- Disabled Assistance Loans
- Energy Conservation Loans
- International Trade Loans Except Export Express
- ESOP Loans
- Pollution Control Loans
- Delta Loans
- CAPline Loans
- CAIP Community Investment Adjustment Loans

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Use of Proceeds

- Normal Business purposes
 - Lenders to insure proceeds are used for business purposes
 - Conform with Lenders normal Verification on use of proceeds
 - Communicate to borrowers that proceeds to be used for business purposes only
- See National 7(a) lender's Guide
- Exceptions:
 - SBA Form 1920SX (Part C)

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Eligible use of Proceeds Examples

- Same as Regular 7(a)
 - Real estate purchase, refinance, remodeling
 - Machinery
 - Inventory
 - Working capital
 - Purchase of a business
 - Start up costs
 - Debt refinance
 - See National 7(a) Lender's Guide

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Loan and Guarantee Limits

- 50% Maximum Guaranty Percent
- \$250,000 maximum loan(s) amount
- \$125,000 Maximum Guaranty under SBAExpress
- \$1,000,000 Maximum Guaranty (Regular 7(a) & SBAExpress Combined)
- Guaranty Multiple Loans are allowed
 - Must Not Circumvent SBA Fees 90 day rule

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Interest Rate

- Maximum Interest Rate:
 - 6.5% over Prime for Loans of \$50,000 or less
 - 4.5% over Prime for Loans above \$50,000
- Variable or Fixed Rate Loans allowed
- Change no more than Monthly
- Not required to use New York Prime
- Can use the same base/Prime as for your non-SBA Loans
- Can't Sell on the Secondary Market unless based on New York Prime
- SBA will pay based on New York Prime plus $2\frac{1}{4} - 2\frac{3}{4}$

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Guarantee Fees

- Same as Regular 7(a)
 - Up Front
 - Loan Amount
 - | | |
|--------------------------|------|
| • 0 - \$150,000 | 2% |
| • \$150,000+ - \$700,000 | 3% |
| • \$ 700,000+ | 3.5% |
 - Ongoing
 - .5% annual .04167% per Month
 - Paid Monthly with SBA Form 1502
 - 12 Month or less term
 - .025% up-front and .5% ongoing fee
 - If term is extended to over 12 months fee will increase (except in a workout)

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Size Standards

- Same as regular 7(a)
 - Manufactures 500 Employees
 - Wholesalers 100 Employees
 - Retailers/Service \$1.5 - 6 million
 - Construction \$12 - 28.5 million
 - Agriculture Not eligible under SBAExpress
- Including all affiliates
- Attachment; Primary Industry, NAICS, Affiliated Group Size Standard, Combined receipts/employment for the affiliated group

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Term / Maturity

- Same as Regular 7(a)
- Shortest appropriate term to assure repayment
 - Fully Amortizing (Except LOCs)
 - No Balloons allowed
 - W/ C 7 – 10
 - 7 year max on LOCs
 - M & E IRS life of the Asset
 - R/E 25 years

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Collateral

- SBAExpress Program Guide Page 18 (Oct 02)
 - No collateral required for loan of \$25,000 or less
 - Lenders collateral policy for loans
 - \$25,000+ to \$150,000
- Policy Notice 5000-850 (Feb 03)
 - Lenders policy for loans over \$150,000
- Must be Commercially Reasonable and Prudent

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Debt Refinancing

- Same as Regular 7(a)
 - Not meeting the business needs
 - 20%+ cash flow savings
 - Can't refinance your own debt if 29+ days past due
 - Prior 36 months
 - Can't refinance existing SBA debt
 - Creditor in a position to sustain a loss
- Except:
 - Attach a debt schedule showing terms and justification for the refinance
 - SBA debt, must be current on SBA debt, SBIC, 504, or sellers SBA debt if with the same bank
 - Trust account taxes: Payroll, Sales

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Environmental

- Lender is delegated authority to make prudent decision regarding Environmental. Risk
- Lender must follow Environmental. Requirements of SOP 50-10
- On Commercial Real Estate taken as collateral only
- Reasonable and Prudent Belief that there is no Risk of Contamination
- Lender should obtained Sufficient Knowledge of
 - Past and Current Operations
 - Adjacent Businesses
 - Frequent or Likely Polluters

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Appraisal Requirement

- None requirement
- Loans maximum is only \$250,000

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Personal Guarantees

- Same as 7(a)
- Required for all
 - Sole Proprietors
 - Partners
 - Owners of 20% or more
- Limited Guarantee for 5-19% owners
 - Lender's discretion
 - At least one guarantor (CEO ?)

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Liquid Personal Assets

- Same as Regular 7(a)
 - Loan amount LPA
 - 0 - 250,000 2X Project or \$100,000
 - \$250,000+ - \$500,000 1 ½ Project or \$500,000
 - \$501,000+ 1X Project or \$750,000
 - Whichever is greater
- 20% or more owners
- Cash, CDs, marketable securities, CSV, etc Only
- IRA type investments and real estate Exempt

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Sale of Business #1

- Same as Regular 7(a)
 - Except; Sale of partial ownership not allowed
 - Attach; Synopsis of business value analysis &
- Arms Length:
 - Willing, Informed and Knowledge Buyer
- Reasonable Need to Sell the Business
 - Health of Seller
 - Retirement
 - Etc.

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Sale of Business #2

- Methods
 - Gross Revenue Multiplier
 - Adjusted Book Value
 - Discounted Future Earnings
 - Capitalized Adjusted Earnings
 - Cash Flow
 - Other Generally Acceptable Methods

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Sale of Business #3

- Documentation
 - Prior 3 years F/S (signed by Seller)
 - Current F/S (signed by Seller)
 - Copy of Buy-Sell Agreement
 - Valuation (attached)

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IRS Verification

- Same as Regular 7(a)
 - IRS Transcript
 - Income Statement
 - Balance sheet
 - If Provided to IRS
 - Existing Business and Sale of Business
 - Signed by Borrower of Seller
 - Reconcile to financial statements
 - In lenders file
 - Complete prior to Disbursement
 - 10 Business Days for IRS to Respond
 - Not required if credit scoring
 - Sales, N/P, etc not in credit scoring

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Franchises

- www.franchiseregistry.com
- If not on the franchise registry site
 - Franchise Agreement, FTC Disclosure Statement and F/S
 - Lender to review the Franchise Agreement and determine if it meets the requirements of SOP 50-10
 - Franchise has the right to profit & risk of loss Commensurate with ownership
 - No excessive restraint on sale of franchise interest

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www.franchiseregistry.com



Operating Company / Eligible Passive Concern

- Same as 7(a)
- Existing
 - 51% business occupancy
 - 49% rental
- New
 - 80% business occupancy (New)
 - 20% long term rental
 - 20% short term rental
- Co-borrowers or maker and guarantor

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Export Express

- \$150,000-\$250,000 75% SBA guaranty
- \$0-\$150,000 85% guaranty
- Existing businesses only
- Enter or expand export market
- 1-2 page plan to lender
- For overseas marketing and distribution
- Technical assistance from USEAC
 - U.S. Export Assistance Center

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Lines of Credit

- **Revolving** Lines of Credit are allowed
 - May **Not** Be Sold on Secondary Market
 - May Be Accessed by Credit Card
 - Applicant Commits to Business Purposes
 - Not Required to Monitor Each Disbursement
 - 33+% increase to have appropriate analysis
 - Maximum - Seven Years
 - Combination of revolving and term
 - Term outs - Available at Outset
 - 3 Year max term on work-outs

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Combination / Piggyback Financing

- Not allowed under SBAExpress
- Not allowed at all Notice 5000-931
- When a lender provides more than one loan(s) to a single borrower (OC / EPC) at about the same time for the same or similar purposes
 - Two working capital loans are not Companion/ Piggyback

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Lenders Documentation/Forms

- Lender to Borrower Forms
 - Generally Bank Forms
 - Application
 - Personal Financial Statement
 - Internal Credit Memoranda
 - Loan Notes (Legally Enforceable)
 - Collateral Documents
 - Liquidation Documents
 - Except SBA Form 1919, Borrower Info.
 - Forms sent to SBA are SBA Forms

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Forms/Procedures

Eligibility Authorized Lenders

- SBA Form 2238: SBAExpress Guarantee Request (Eligibility Authorized)
 - To Sacramento
 - Loan # Issued in one Business day
- Authorization
 - To Fresno
 - Completed and signed by lender
- SBA FORM 1919 to Lender File
- Changes
 - To Sacramento within 7 days
 - To Fresno thereafter

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Forms and Procedures

Other Lenders

- SBA Form 1920SX (Parts A, B, & C)
 - To Sacramento
 - Loan # Issued in one Business day
- Authorization
 - To Fresno
 - Completed and signed by lender
- SBA Form 1919 to Lenders File
 - One for each owner of 20% or more
- Changes
 - To Sacramento within 7 days
 - To Fresno thereafter

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Other Restrictions

- 90% maximum financing of RE Acquisition or Refinance
- Previous Submissions
- Ethical Requirements
- Contaminated Collateral
- Prior Losses to the Government
- Conflict of Interest
- Applicant must be current on existing SBA loans

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Closing

- Lender to use the same closing and disbursement procedures as for non-SBA commercial loans
- Lender to Close on Lenders Forms (mostly)
- Legally enforceable & assignable note
- Obtain all collateral and conditions prior to disbursement
- Settlement Sheet SBA Form 1050
- Report of SBA Form 1502 when Approved

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Closing #2

- Prior to Disbursement
 - IRS Transcripts obtained and reconciled to IRS Form 4507T
 - Un-remedied Adverse change evidence
 - Hazard Insurance in place
 - Flood Insurance (FEMA Form 81-93)
 - Nat'l Earthquake Requirements
 - American Made Goods Agreement
 - SBA Form 601 (construction of \$10,000+)
 - SBA Form 159 (Packagers)
 - Child Support Payment
 - Environmental Review

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Servicing and Liquidation:

- Servicing
 - Notice 0000-1727
 - 14 actions requiring SBA Approval
- Liquidation
 - Lender Required to Liquidate
 - SBA will Immediately Purchase Defaults on Loans When:
 - Remaining Balance is \$50,000 Less
 - Liquidation will be Delayed

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14 Servicing Rules Slide #1

- **SBAExpress Lenders**
- The following actions are not delegated to SBAExpress lenders, pursuant to the SBAExpress Program Guide (10/1/02), ¶7.C (1), p. 29: and Notice 5000-917
- 1. Action that would confer a preference on the lender.
- 2. Compromise with any obligor for less than the full outstanding principal loan balance.

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14 Servicing Rules Slide # 2

- 3. Release a guarantor, even if actual demand has not yet been made.
- 4. Title property in the name of SBA
- 5. Take title to environmentally impaired property.
- 6. Transfer a loan to another lender.
- 7. Sell or pledge more than 90% of a loan.
- 8. Change guaranty percentage.
- 9. Repurchase from secondary market.

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14 Servicing Rules Slide # 3

- 10. Handle non-routine (contested) litigation or litigation with legal costs over \$5,000.
- 11. Increase the principal amount of the loan.
- 12. Disburse a loan with primary collateral having significant potential environmental risks that are proposed to be minimized by a non-standard indemnification agreement.

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14 Servicing Rules Slide #4

- 13. Select firms owned by officers, directors, employees or 10% or more stockholders of the lender to provide care and preservation services, legal assistance, or other liquidation services.

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14 Servicing Rules Slide #5

- 14. Release collateral that will be subsequently pledged for a conventional loan from the lender or any entity owned in whole or in part by the lender's officers, directors, employees, or 10% or more shareholders.


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Servicing Actions Requiring Notice to SBA

- Loan Cancellations
- Decreases in Loan Amount
- Changes of Maturity
- Changes of Business Name & Address
- Extensions of Disbursement Periods
- Notice of Prepayment


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Fees

- Lender may charge the same fees as it charges for its non-SBA commercial loans
- SBA will not purchase any portion of the loan balance that contains these fees
- Dollars vs. Prorated?

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Additional Information

Wisconsin District Contacts

Website: www.sba.gov/wi

Milwaukee: Phone: 414-297-3941
Fax: 414-297-1377

310 W. Wisconsin Ave., Ste. 400 53203

Madison: Phone: 608-441-5263
Fax: 608-441-5541


740 Regent St., Ste. 100 53715

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WI SBA website: www.sba.gov/wi

WI Lenders Area:

www.sba.gov/wi/wilenders.html



SBA Contacts

- Loans Processed in Sacramento
 - May Be Faxed - Soon Via Internet
 - 24 Hour SBA Response
- Serviced – Fresno Commercial Loan CTR.
- Purchases -Little Rock & Fresno LCS
- District Office has marketing responsibility

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Contact Information:

www.sba.gov/wi/wilenderinfo.pdf
